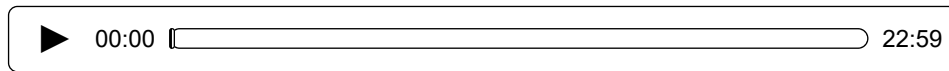


The ABCs of the FOMC: Atlanta Fed President Dennis Lockhart Discusses the Policymaking Process

08/20/2015

August 2015

Tom Heintjes: *Hi, and thanks for joining us for this inaugural Economy Matters podcast. I'm Tom Heintjes, managing editor of the Atlanta Fed's Economy Matters magazine. We're starting off this podcast series on a high note, because today we're sitting down with Dennis Lockhart, president and CEO of the Atlanta Fed. Thanks for joining us, Dennis.*

Dennis Lockhart: Thank you, Tom.

Heintjes: *As a Reserve Bank president, Dennis is a member of the Federal Open Market Committee, or FOMC, which is the group that meets eight times a year to set monetary policy for the nation. The FOMC has a high profile, to say the least, and the actions it takes to set policy are closely watched by many people around the world. Dennis has agreed to sit down with us to give us a fuller idea of how an FOMC meeting is conducted. Dennis, I wanted to briefly begin by going over the composition of the FOMC's membership. It's actually pretty straightforward. The FOMC's membership is composed of the Fed's Board of Governors and the 12 Reserve Bank presidents. The chair of the Fed's Board of Governors, Janet Yellen, is also the chair of the FOMC, and the president of the New York Fed is the FOMC's vice chair. Does that capture it?*

Lockhart: That's correct. Currently, we actually have 17 people who participate in the meeting, and of then of course many staff who are in the meeting room itself. There is a technical difference between member and participant. When I am a voter, I am a member of the FOMC. When I am in an off year and I'm not a voter, then I am considered a participant. But for all practical purposes, at least in the discussion in the meeting, everyone is a member.

Heintjes: *Great, thanks for making that distinction. I wanted to begin by asking you to walk me through the structure of a day in an FOMC meeting. I have here a photo of an in-progress meeting, and I see lots of notepads and bottles of water, although I have to confess I expected to see more cups of coffee. We also have some pictures on our website, frbatlanta.org/economy-matters, and on our Facebook page. What goes on when you guys are sitting around the table like this?*

Lockhart: Well, we are all in a quite large room that is the only place where FOMC meetings take place. Each of us has an assigned seat. At the table are the 12 Reserve Bank presidents and, currently, five governors. If the governors were fully staffed it would be seven governors. And then there are four or five members of either the Washington staff or the New York market desk staff. Those are the people at the table, and then there are people seated in an adjacent area for staff members. Each Reserve Bank, for example, is able to take one other person, so I'm always accompanied by Dave Altig, who's my head of research. Sometimes the Reserve Banks will mix that up a little bit, but I would say in the room are roughly 50 or 60 people, many of whom are just listening to the proceedings. We all have assigned seats, and a typical meeting starts with some briefings, first by the New York staff on what has taken place in the market and what financial conditions are like, and followed by briefings by the Washington economic staff that give us both an international and a domestic update on their view of the economy. Some of us may differ with that, but that sets a baseline for discussions, and that's how the meeting begins.

Heintjes: *And then does each Reserve Bank president discuss their region? Does it go numerically, one through 12? How does that work?*

Lockhart: Normally, we will have at least two so-called "go-rounds," and the first one is on the economy and the second one is on policy. Sometimes there will be a special subject, in which case we will be asked to give our opinion on either some kind of a technical question or a longer-term monetary policy strategic question, so it's not uncommon that there are three go-rounds, but there are at least two. The economy go-round typically starts with the Reserve Bank presidents. They tend to be the early speakers, and then toward the end you will hear more from the governors, and then at the very end from Chair Yellen. The presidents will usually begin their commentary with reports from their districts based upon board meetings or contacts they had with business and community leaders over the seven- or eight-week period between meetings. The idea there is to get some anecdotal but real-time, up-to-date sense of what's going on on the ground in the economy. We typically will talk a little bit about what we have heard from contacts in our respective Districts. Then, most presidents will talk about the national economy. It's important to emphasize we're there to set policy for the national economy—we're not there to represent the interests of our Districts. What we hear in our Districts is input to a national picture. Each president will give his or her take on the economy, often making a comparison to a write-up that we have received in advance from the Washington staff—it's called the Teal Book; that's the color of the book. We'll often comment with some comparison to how the Teal Book assessed the economy and the forecast that was in the Teal Book.

Heintjes: *You mentioned that you go up with both data-driven information and more anecdotal information gathered through grassroots efforts. How is that grassroots data gathered?*

Lockhart: Here in the Southeast, we have quite an elaborate process of gathering it. We have people in each of our branches—and we have five branches across the Southeast, as well as here in Atlanta—whose principal job is to go out and make contact with parties in the District who can give us a sense from the perspective of their own business, or their own activities, as to how the economy is evolving. We typically will have 50 to 70 such interviews in a seven-week period leading up to the FOMC. We also have boards of directors in each of our branches, plus Atlanta, so we have six

boards of directors, or 44 total directors. Among the things those directors do is respond to questions that we pose them at some point in the process leading up to a board meeting. The way they respond is typically they get on the phone and they call people in their own networks to give a broader sense of what the answer to the questions might be. A question could be, "What are your hiring plans?" for example, or, "Are you sensing input inflation in some way in your business?" Another question might be, "Are you optimistic or pessimistic regarding the future?" Those are the kinds of questions that we ask. So we have 44 directors, and if each of the directors has eight or 10 contacts, then we get over 400 touchpoints in the region in every cycle, and that is fed back and processed to try to get a synthesis of what we're hearing.

Heintjes: *Do you have a sense of whether different Districts adopt a similar approach in gathering their information? How is that conveyed to the group collectively?*

Lockhart: I think that the Districts take quite different approaches, and that's partly because the Districts are quite different. Ours in the Southeast is quite extensive. The population is over 40 million people; it's about 13 percent of the GDP, the gross domestic product of the country. Some of the Districts are quite small. Philadelphia, for example, is a much smaller District. So each District does it in its own way, but in our case we really make a very big effort to get anecdotal feedback on the economy.

Heintjes: *Right. In the course of a meeting, how does the role of a Reserve Bank president differ from that of a Fed governor on the FOMC? A Reserve Bank president can discuss his region's economy, but a Fed governor must have a different perspective on the matter.*

Lockhart: Well, the governors don't have a District to talk about. They don't have necessarily the kind of extensive contacts with business people, but they have some. In the period between meetings, they will have meetings in Washington, and that will provide some feedback as to how the economy is evolving. Therefore, they will have perhaps some comments on anecdotal input they've received, but for the most part, the governors talk simply about their view of the economy and what they think are the important questions at any given time. They have been briefed by the Washington staff, so that is a baseline for them, and each governor has his or her own views as to what the important questions are. So that's one significant difference. They don't quite have the same staff support that we have, the free flowing information back and forth, nor do they have the same freedom to talk to each other that we have, that presidents have, because of rules related to what constitutes an official meeting and what requires, then, certain kinds of procedures to go around an official meeting. So they're a little bit more constrained. On balance, we all talk about the economy.

Heintjes: *And when does Chair Yellen discuss her thoughts during the discussions?*

Lockhart: Well, like Ben Bernanke, Chairperson Janet Yellen usually will summarize what she has heard in the economy round, which is often the first round of discussion, and then she will supplement that with her own views. It's important, I think, that she waits to the end because if she were to give her own views at the beginning, it would set up a different dynamic in the meeting. None of us, I think, feel that we have to worry about disagreeing with the chair, because we don't know what the chair's views are until the end, after we've already spoken.

Heintjes: *Now you've been an FOMC member under the leadership of former Chair Ben Bernanke and now Chair Yellen. Meetings don't differ much from when Ben Bernanke was Fed chair?*

Lockhart: No, they are very, very similar. Ben Bernanke did the thing I just described. He would wait till the end of the economy round to give both a synthesis of what he had heard, trying to summarize the views and find the common ground among the participants, and then add his own views on the economy. Obviously, the views of the chair are very, very important, and in the final analysis, if there really is a strong difference of opinion on policy, the chair may very well intervene in a way and propose a particular course of action. So the chair's views are very important, but Janet Yellen does this the same way Ben Bernanke did, and I think those of us who have been part of the process for a number of years really appreciate the restraint that the chair shows by not sort of getting out in front of the committee.

Heintjes: *And of course Chair Yellen was a Reserve Bank president herself on the FOMC, so she knows what makes for a good meeting.*

Lockhart: She's had every important position, virtually, within the Federal Reserve. She's been a Reserve Bank president, she's been a governor, she's been vice chair and now she's chair. It's hard to think of anyone more qualified than Janet Yellen.

Heintjes: *Right. So we know by now a great deal of discussion has taken place, but when it comes to actually voting on setting monetary policy, only some members of the FOMC are voting members. Fed governors always cast a vote, as you noted, as does the president of the New York Fed. The other 11 Reserve Bank presidents rotate on and off the FOMC's voting membership, and you are currently a voting member. How are actual votes cast? Is there a high-tech system that tabulates votes, or do you simply raise your hands? How does that work?*

Lockhart: There's a roll call. The secretary of the FOMC basically goes down the role of voting members, and you say yes or no. It's that simple. It's done in alphabetical order.

Heintjes: *Refreshingly low tech.*

Lockhart: Very low tech [*laughter*], as a matter of fact, and very quick. Usually, in my opinion, there's not a lot of drama around the vote because we're pretty clear on where the consensus is, and also clear by that time, based on comments, who disagrees with the course of action that is being voted on and so it's rare that anyone is surprised by how the vote comes out. I don't want to say the vote is perfunctory. It's not perfunctory, but it's also not high drama.

Heintjes: *Right. It's interesting that you mention consensus because I wanted to ask you about that. This may be apocryphal but President Truman is said to have called in exasperation for a one-armed economist because he was so weary of hearing "on one hand, but on the other hand." How does the FOMC manage to achieve consensus among its 19 participants?*

Lockhart: Well, first, each of the participants follows a process that is somewhat similar. We read the same materials, and the days before a meeting are really heavy with incoming materials to read. We have a common baseline or a common base of information that we've all read. That helps us to be talking in common terms and referring to data, for example, using the same measures and so forth. Out of the meeting, you have reasonable people who want to come to a consensus, who want to come to a conclusion. We want to take action when we need to take action. It is not in any way a partisan proceeding. After people are appointed to the Fed, they pretty much are nonpartisan and don't represent any particular political point of view. So, usually a consensus on what the reality of the economy is and what ought to be the policy decision comes naturally out of extensive discussion over two days.

Heintjes: *You mention a two-day meeting. Aren't most FOMC meetings one day, but there are a couple of two-day meetings over the course of the*

year?

Lockhart: Well, we changed that a while back. There was a particular meeting, and I had an opinion that I expressed strongly to Chair Yellen about a meeting that I felt was rushed, back a couple years ago. It was a one-day meeting. It turned out there was a little bit more contention in the meeting than expected, so I strongly proposed—and others also proposed—that we just go to a two-day meeting. So we always now have a two-day meeting. Now, the start time of the first day may vary depending on the agenda, so sometimes it will begin at 10 o'clock in the morning on the first day, sometimes in the early afternoon. It depends a bit on what the agenda is for that particular meeting, but we always have two days so that we have the flexibility to make sure that we have enough time to discuss what everyone wants to talk about, give everybody ample time for his or her opinions, and have the flexibility to respond to things that come up during the meeting.

Heintjes: *Well, I'm sure your colleagues were all very grateful to you for having the meeting expanded to two days.*


Lockhart: *[Laughter]* Those who don't like to travel, I suspect, would have wanted to go home. We now have a pretty much set routine of two-day meetings.

Heintjes: *As we noted earlier, you're now a voting member of the FOMC again, which you've also been previously. Now that you're what we can comfortably call a veteran policymaker, does this voting role feel different to you this time compared to your first term as a voting member?*

Lockhart: Well, not yet, I would say. I've never felt that there was a big difference in having a vote or not having vote except, of course, that you cast a vote. In the meeting what really counts is your voice and what you have to say. As a nonvoting participant, my voice has been respected as much as it is when I'm a voter. So in that sense nothing changes to the extent that this year, 2015, may be a year in which a momentous policy decision is made and I'll have a chance to vote on it. That makes it perhaps a little bit more of a sense of importance to the role than in years past, where we were pretty much on hold in terms of policy, and the expectations were that we weren't going to be making any major policy changes. That is a difference, but it is a difference that I'm anticipating in 2015, but it hasn't developed yet.

Heintjes: *I want to end this conversation by asking you a question—and feel free to disillusion me here if you have to. After hours, after a meeting ends, I can only imagine that the conversation turns from the economies of the Atlanta Fed and the Dallas Fed to, say, the prospects of the Atlanta Falcons and the Dallas Cowboys.*

Lockhart: Well, I don't know if it's a rivalry between the Atlanta Falcons and the Dallas Cowboys. Let me just say that it's a very collegial group. We have a lot of fun together; we're very friendly. I would say over the years very strong friendships have developed. We've teased each other over sports teams, whether that be college teams or pro football, baseball, or basketball teams. Those who have winning teams often actually make sure that they comment on that in the minuted meeting—they rub it in to the loser. That actually occurs in the meeting—it's not after the meeting has taken place. I think the public should know that this not just a totally serious, humorless process, but it's a human process with people cracking jokes and having some fun in the meeting and certainly after the meeting as well.

Heintjes: *Well I'm very grateful that you helped put a human face on that process, Dennis. Thanks for a very enlightening conversation—I appreciate your sharing your unique perspective on this part of the policymaking process with us. Again, I'm Tom Heintjes with the Atlanta Fed's Economy Matters magazine, and we've been talking to Atlanta Fed President and CEO Dennis Lockhart. I hope you'll stop by next month when we talk to Atlanta Fed economist Scott Frame about his research in the U.S. government's conservatorship of the housing agencies Fannie Mae and Freddie Mac and what it's meant for the housing market. I also encourage you to subscribe to this monthly podcast on [iTunes](#) . Thanks for listening, and let's get together next month.*

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